

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of Certain Expenses
of the Middlesex Regional Retirement Board
For the Six Year Period
January 1, 1995 – December 31, 2000**

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April 3, 2003

The Public Employee Retirement Administration Commission has completed an examination of certain expenses of the Middlesex Regional Retirement System pursuant to G.L. c. 32, §21. The examination covered the period from January 1, 1995 to December 31, 2000. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

In our opinion the financial records and management functions with respect to expenses are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners David Pickering and Edward Johnson who conducted this examination and express appreciation to the Middlesex Regional Retirement Board, the current Executive Director and the Board staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Middlesex Regional Retirement Board

FOR THE SIX YEAR PERIOD ENDING DECEMBER 31, 2000

The Middlesex Regional Retirement Board

The plan is a contributory defined benefit plan covering all Middlesex Regional Retirement System member unit employees deemed eligible by the Retirement Board, with the exception of school department employees who serve in a teaching capacity. The Teacher's Retirement Board administers the pension of such school department employees.

Instituted in 1937, the System is a Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory upon commencement of employment for all permanent, full-time employees.

Selection Criteria:

During a regular audit of the Pittsfield Retirement Board, PERAC Auditors discovered a letter from the Board Chairman to one of the Board's fund managers. The letter contained references to a trip taken by the Chairman, which may have been financed by a third party investment broker. The trip, as it was described to us, was in violation of 840 CMR 17.03 (d).

During a subsequent interview with the Chairman regarding the trip, he explained that it included several other Massachusetts Retirement Board members, whom he went on to name. Boards on which the named members serve were then contacted and a review of certain Board expenditures was conducted for the six-year period January 1, 1995 through December 31, 2000. The Pittsfield Audit was referred to the Attorney General's Office on April 20, 2001.

Audit Scope

The scope of our audit was to review and analyze the internal controls over certain expenses and to review the Board's internal policies and management functions related to this matter. We reviewed expenses for the period of January 1, 1995 to December 31, 2000 inclusive.

Middlesex Regional Retirement Board

FOR THE SIX YEAR PERIOD ENDING DECEMBER 31, 2000

(Continued)

Travel Regulations:

On March 7, 2002 PERAC issued Memorandum #15/2002, "Guidelines for Retirement Board Travel Supplemental Regulations" and directed Boards to adopt supplemental regulations consistent with the guidelines. On May 6, 2002 the Middlesex Regional Retirement Board submitted Education and Travel Supplemental Regulations for review and approval. On July 17, 2002 the Board was advised that its proposed regulations were inconsistent with the guidelines in several respects. As of this date, nothing further has been submitted.

Middlesex Regional Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE SIX YEAR PERIOD ENDING DECEMBER 31, 2000

Travel Expenses:

Travel expenses incurred by Board and staff members are charged on the Corporate American Express Card. Use of this credit card for charging travel costs has been authorized by the Board, however, there are no controls in place to monitor itemized charges and account balances to ensure travel costs charged are for authorized travel.

A review of the travel expenses incurred by Board Members disclosed the following items:

- One Board member attended a NCPRS conference from 5/6/95-5/11/95 and took four family members on the trip. The Board member and his family stayed at the Walt Disney Village Resort in Orlando, Florida. The conference ended on May 11th, however, hotel and meal cost of \$471.80 for 2 additional night stays were paid for by the Board. The nightly hotel charge of \$205.35 was based on a group rate. Most meal costs paid for by the Board included the meal costs of family members. The Board was not reimbursed for the additional costs of family members, including the costs of staying 2 additional nights.
- In 1996 one Board member took two trips costing \$657.36 (Airfare) to Australia. The business purpose of these trips was not noted in the minute book or in any other records maintained by the Board. After reviewing all travel records, we were unable to document any further costs relating to the trips to Australia. Additionally, in October 1996 this individual took a trip to San Francisco with an unidentified individual who was not a Board member. Airfare costs paid by the Board for this companion were \$836.

Middlesex Regional Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

(Continued)

FOR THE SIX YEAR PERIOD ENDING DECEMBER 31, 2000

- In March of 1999 one Board member charged \$254.44 worth of liquor from the Drum Hill Discount Liquor Mart located in Chelmsford, Massachusetts on the Corporate American Express Card. Other purchases include groceries from the Market Basket store in Hudson, New Hampshire on March 27, 2000 in the amount of \$245.85, and another purchase of liquor in the amount of \$251.48 from New Hampshire Liquor Store #53 located in Hudson, New Hampshire. These expenditures including the business purpose are not discussed in the Board's minute book.

Recommendation:

PERAC regulation 840 CMR 25.15(3) requires that all administrative expenses be approved and authorized by the Retirement Board and that the approval be reflected in the minutes of the Board meeting. In addition, regulation 840 CMR 25.15(4) requires that there must be proper receipts on file with the Board for all expenses incurred. It is recommended that the Middlesex Regional Retirement System direct Board Members to refrain from using the credit card for personal expenses and to reimburse the system for those expenses noted above including expenditures for family and friends.

The Middlesex Regional Retirement System should continue to review its Education and Travel Supplemental Regulations and move to adopt supplemental regulations consistent with the guidelines issued by PERAC.

Board Response:

- Controls on Credit Card Charges: The Board will implement review and audit procedures to ensure that credit card charges are for authorized expenses, including travel.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

FOR THE SIX YEAR PERIOD ENDING DECEMBER 31, 2000

- NCPERS Conference of 5/6/95 through 5/11/95: As PERAC has indicated, this conference ended on May 11, 1995, and the member stayed at the NCPERS hotel the evening of May 11 and May 12, checking out on May 13, 1995. It is the Board's policy to allow a member to stay the evening of the last day of a conference, when required, and the Board had approved same. Please see attached minutes of Board Meeting of February 16, 1995. However, the board member is responsible for the additional cost of the May 12, 1995 stay, and has reimbursed the Board for same in the amount of \$210.71. With reference to meal costs, the Board's policy in effect at the time allowed a per diem payment of \$85.00 for meals, tips and miscellaneous expenses, irrespective of whether the meals included family members. The board member was reimbursed for five days of meals for the period May 6, 1995 through May 11, 1995. Said reimbursement was consistent with the Board's then existing education and travel policy.
- 1996 Travel: The board member traveled to Australia to review a potential investment of the board, for which the Board reimbursed the member for airfare. Other costs associated with this trip were absorbed by the board member or third party vendors. Under the Board's subsequently adopted Education and Travel Policy, all costs associated with travel must be reimbursed to the member by the Board. With respect to the Board payment for the airfare cost for a companion of a board member for travel to San Francisco, such payment was previously reimbursed to the Board by the board member.
- March 1999 and March 2000 Expenditures: The charges on the Board's credit card for groceries and liquor were expenses associated with the Board's Annual Spring Seminar, which took place in Burlington, Massachusetts, for refreshments for the cocktail party and hospitality suite. Said costs were reimbursed to the Board from the proceeds of the registration fees charged to attendees.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

FOR THE SIX YEAR PERIOD ENDING DECEMBER 31, 2000

March 1999 and March 2000 Expenditures (Cont'd)

The Board policy whereby all administrative expenses associated with travel and education are reviewed and approved at a regular Board Meeting, and reflected in the Board Minutes, will be reviewed to ensure compliance. The Board has had an Educational and Travel Policy in effect since September 1, 1993, which has been amended from time to time. The Board has adopted its most recent policy pursuant to PERAC Memo #15/2002. This policy will continue to be the Board's policy until such time as PERAC's Travel Regulations are approved by the Legislature.